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## China, Peoples Republic of

### Cotton and Products

### Cotton Situation Update

### 2006

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**Report Highlights:**

China's 2006 cotton production is forecast to reach 6.3 MMT due to increased planted area and better than expected yield. Despite high domestic production, imports of cotton in marketing year 2006/07 are forecast to surge to 4.4 MMT as a result of continuing rapid growth in the textile industry.

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Includes PSD Changes: No  
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Beijing [CH1]  
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## 2006 Domestic Cotton Production expected to reach 6.3 MMT

According to the Executive Vice President of the China Cotton Association, China's 2006 domestic cotton production is likely to hit a record high of 6.35 MMT. This is higher than the historical production record of 6.32 MMT in 2004, as recorded by the Chinese National Statistics Bureau (NSB). The increased production is based on a total planted area of 80.65 million Mu (5.377 million hectares), up 6.25 percent over 2005, and higher than expected yields in significant producing provinces. In general, the crop was rated as "better than average" during the whole growing season. Since late August, weather conditions have remained favorable throughout cotton maturation and harvest periods. The table below shows preliminary area and production estimates for China and eight individual cotton-producing provinces. This information is based mainly on Chinese sources (provincial agricultural and statistics bureaus and cotton associations), but also on a short USDA field study of Xinjiang conducted at the end of August. The production for the eight provinces is estimated at 5.74 MMT, up by 10.8 percent compared to 2005. Other small producers are also expected to experience record production. For example, Jiangxi is expected to produce about 120,000MT.

### 2006 China's Cotton Area and Production Estimates

Provinces/year	Area (10,000 Mu)		Production (1,000 MT)	
	2006	2005	2006	2005
<b>Xinjiang</b>	1,864	1,721	2,150	1,890
<b>Shandong</b>	1,381	1,269	1,000	846
<b>Henan</b>	1,172	1,174	700	677
<b>Hebei</b>	950	860	570	577
<b>Hubei</b>	603	585	400	375
<b>Anhui</b>	590	572	350	311
<b>Jiangsu</b>	501	552	370	323
<b>Hunan</b>	220	200	200	185
<b>Top 8 Total</b>	7,281	6,934	5,740	5,184
<b>Nation</b>	8,065	7,590	6,340	5,700
<b>Jiangxi</b>	88	NA	119	87

China's National Development and Reform Commission (NDRC), Ministry of Finance (MOF), Ministry of Agriculture (MOA), State Administration of Industry and Commerce, and several other departments held a nationally televised cotton conference on September 28. An NDRC official said that, according to NSB information, the 2006 crop is estimated at about 6.3 MMT (up 10.5 percent over 2005) based on averaged yield of 1,177.5 Kg/hectare (up 2.4 percent over 2005).

### Consumption Expected to Grow

Cotton consumption for MY 2006/07 is forecast to exceed 10.5 MMT. According to monthly yarn data released by China Cotton Information Center (cncotton.com), total yarn production (unadjusted by NSB) for MY 2005/06 (September to August) reached 16.04 MMT. This forecast is 22.34 percent higher than MY 2004/05 (13.11 MMT). Cotton consumption for MY 2005/06 is estimated at more than 10 MMT. Textile and apparel exports for the first eight months of 2006 reached US \$91.4 billion, up 24.7 percent over the same period of 2005.

To ease the political pressure related to the constant trade surplus, China's government reduced the tax rebate for textile exports from 13 percent to 11 percent, effective September 1, 2006. Additionally, the appreciation of the Chinese currency continues. Industry insiders opined that the textile sector faces serious challenges, considering that the net profit for the sector is low, ranging from 2 to 3 percent. Experts will be closely monitoring the impact of these factors on cotton consumption in the next months.

#### **Cotton Imports for MY 2006/07 Forecast to Hit Record**

Experts forecast that Chinese imports for MY 2006/07 will reach 4.4 MMT, despite the anticipated record domestic production. Total imports for MY 2005/06 (Aug-Jul) have already reached 4.2 MMT, while preliminary August import data is 289,000 MT.

On September 26, NDRC published "The Implementation Measures of 2007 TRQ Allocation for Imported Cotton", which is basically the same as the previous allocations. The TRQ quantity was set at 894,000 MT and will be distributed in the beginning of 2007. The NDRC conference held on September 28 analyzed the market situation and pointed out that the cotton supply gap would continue in the long term and called for a regulated market order and further reform of cotton marketing. Based on the current market situation, it is difficult to predict whether NDRC will add any additional TRQs for the remaining months of 2006.

NDRC has stated that a "Combination of TRQ with Purchasing of Xinjiang Cotton" plan is under consideration. This is aimed at facilitating marketing of the Xinjiang 2005 crop. According to China Cotton Association (CCA), as of the end of August, Xinjiang had a large stockpiled 2005 crop (about 700,000 MT) that has not been marketed due to low prices and the high transportation cost from Xinjiang to other parts of China.